

MARCH 2020

To Our Shareholders



Alex Gorsky
Chairman and Chief Executive Officer

By just about every measure, Johnson & Johnson's 133rd year was extraordinary.

- We delivered strong operational revenue and adjusted operational earnings growth* that exceeded the financial performance goals we set for the Company at the start of 2019.
- We again made record investments in research and development (R&D)—more than \$11 billion across our Pharmaceutical, Medical Devices and Consumer businesses—as we maintained a relentless pursuit of innovation to develop vital scientific breakthroughs.
- We proudly launched new transformational medicines for untreated and treatment-resistant diseases, while gaining approvals for new uses of many of our medicines already in the market.
- We deployed approximately \$7 billion, primarily in transactions that fortify our commitment to digital surgery for a more personalized and elevated standard of healthcare, and that enhance our position in consumer skin health.
- And our teams around the world continued working to address pressing public health crises, including HIV, Ebola, and most recently Coronavirus—known as COVID-19.

These are some of the many financial and strategic achievements that were made possible by the commitment of our more than 132,000 Johnson & Johnson colleagues, who passionately lead the way in improving the health and well-being of people around the world.

Propelled by our people, products, and purpose, we look forward to the future with great confidence and optimism as we remain committed to leading across the spectrum of healthcare.

Through proactive leadership across our enterprise, we navigated a constant surge of unique and complex challenges, spanning dynamic global issues, shifting political climates, industry and competitive headwinds, and an ongoing litigious environment.

As we have experienced for 133 years, we can be sure that 2020 will present a new set of opportunities and challenges. However, propelled by our people, products, and purpose, we look forward to the future with great confidence

and optimism as we remain committed to leading across the spectrum of healthcare.

Our Credo, Company & Culture

You've heard me talk about Our Credo in almost every communication that I've ever delivered—and this letter is no different. Our Credo is the moral compass that we use to guide our business decisions, and it's the blueprint that outlines how we operate and care for the world. Our Credo is the “red thread” that connects our rich heritage, thriving workplace culture, and the corporate DNA that continues to shape our present and future.

This “red thread” was quite prominent last September. In recognition of the words in Our Credo standing the test of time, we celebrated the 75th anniversary of our Initial Public Offering (IPO) by ringing the historic Opening Bell at the New York Stock Exchange (NYSE). Although we had been in business for almost 60 years, General Robert Wood Johnson II drafted Our Credo shortly before he took the Company public in 1944, creating an opportunity for people to invest in our vision of healthcare and to also understand how we would fulfill that vision. This bold move forward sharpened the focus of Johnson & Johnson and helped us forever open our aperture and create a global approach for defining the future of healthcare every day.

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Today I'm proud to see that we have shareholders from every walk of life, small retail investors to large institutions, as well as current employees to retirees. Diverse as they are, the one thing our shareholders hold in common is the belief in our Company, our values, our people, our performance and our purpose. Their trust and confidence inspire us to continue the pursuit of exceeding their expectations and creating long-term shareholder returns.

Performance & Purpose

Over the many decades, we have successfully remained focused on investing in our business to drive growth that generates long-term value, while also returning value to shareholders and all other stakeholders. In fact, I'm proud to highlight that 2019 marked:

- 36 consecutive years of adjusted operational earnings growth,*
- 57 consecutive years of increased dividends, and
- Our continued ranking among Top 10 Market Cap companies.

Employing our proven capital allocation strategy enables us to balance our short-term goals with our long-term aspirations, while ensuring we have the resources to invest in long-term growth and meet the needs of our stakeholders. This is how we live into Our Credo values and apply equal focus and commitment to both our performance and purpose. Our four key capital allocation priorities include:

- Investing in **growth opportunities for our business** that deliver health solutions to the world, via the research and development of new ideas and new approaches. Our substantial investment in innovation spanned multiple opportunities, including our continued work with CAR-T (chimeric antigen receptor T-cell therapy) to treat multiple myeloma and bring new hope to patients fighting this devastating disease. We are also investing in novel ways to eliminate disease at its earliest stage through the World Without Disease Accelerator (WWDA) efforts. The WWDA is currently exploring several innovative approaches that focus on using digital twins to monitor, maintain and personalize an individual's health.
- Delivering a **competitive dividend to our shareholders**, which increased for the 57th consecutive year, paying out nearly \$10 billion to shareholders in 2019.
- Pursuing **mergers, acquisitions and licensing agreements** that we believe will add significant long-term value for our shareholders and all other stakeholders. Mergers and acquisitions have accounted for approximately 40% of our

operational growth over the past five years. In total, throughout 2019 we completed 13 major acquisitions and noteworthy licenses, and 100 innovation deals. We also made 19 new equity investments from Johnson & Johnson Innovation - JJDC, Inc.

- Considering other **prudent ways to return value to shareholders**, such as through share repurchase programs. We initiated a \$5 billion share repurchase in December of 2018, which was completed in the third quarter of 2019.

Today, there is an increased emphasis on corporate purpose. However, across Johnson & Johnson, we have always operated under the belief that there is a tightly linked connection between our Company's purpose—to advance health for humanity, and our performance—to create and deliver shareholder value.

Leading Across the Spectrum of Healthcare

We are the most broadly-based global company in the healthcare industry. We consider this scope a strategic business advantage, and we also assume the responsibility that comes with it. Leading across the Pharmaceutical, Medical Devices and Consumer sectors provides us with a unique and powerful perspective that enables us to see more, touch more, learn more and do more across the full spectrum of health, as well as throughout every stage of our patients' and consumers' lives.

We have established a sustainable business model that is built for the long-term and provides us with increased confidence about our strategic direction and the future of the healthcare industry. We remain focused on driving the next generation of innovation across our entire portfolio—in new markets, in existing markets where we have greater opportunity to compete, and in the markets where we lead, which include our 26 platforms that each deliver a billion dollars or more in sales annually.

Pharmaceuticals

In Pharmaceuticals, our strong track record of success continued again in 2019, as our Pharmaceutical segment outpaced the market, growing operationally at 5.8%,* which more than offset the negative impact of biosimilar

competition and generic erosion, as well as new competitive entrants and price reductions.

Our robust growth can again be attributed to volume and is a reflection of the increased number of patients we are reaching with our transformational medicines for unmet needs.

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Delivering life-saving and life-changing medicines to people around the globe translated into Johnson & Johnson having the third-largest Pharmaceuticals business in the world, retaining our #1 leadership position in the United States, and being ranked #1 in the Pharmaceuticals category on Fortune's annual "World's Most Admired Companies" list.

Our Pharmaceutical investments in research and development continued to fuel exceptional growth as well. We achieved double-digit growth for 10 key products and delivered strong performance across all regions, in both developed and emerging markets. We're very proud and excited that:

- We gained approval and launched two new transformational medicines: SPRAVATO for treatment-resistant depression and BALVERSA for metastatic urothelial cancer.
- We also continued to maximize the value of our in-market brands for patients, submitting numerous filings and receiving approvals for new line extensions for key brands, including STELARA, DARZALEX, IMBRUVICA, TREMFYA and ERLEADA, many with peak sales potential that is greater than \$500 million.
- We continued to expand our portfolio with the strategic licensing and acquisition of new

assets and platforms, including cusatuzumab from argenx, an investigational antibody for the treatment of acute myeloid leukemia and high-risk myelodysplastic syndromes, and a gene regulation platform from Meira GTx.

With this industry-leading pipeline, commercial capabilities that create patient access, and robust R&D productivity, I'm confident that we are well positioned to continue delivering sustained, long-term, above-market growth in 2020 and beyond.

We believe the power of any new idea is magnified and multiplied by our highly collaborative innovation process...This is how that individual spark of an idea becomes the next great collaborative breakthrough.

Consumer

2019 marked a year of significant transformation for the Consumer business. We re-established our brand and purpose, and made strategic decisions that, over time, we believe will accelerate growth, reduce complexity, and improve operating margins.

Fueled by science-based, professionally endorsed brands and strong consumer insights, we placed a concerted focus throughout 2019 on establishing a clear plan and path to achieve benchmark profitability in 2020, and the segment is already well on its way—as we delivered 90 basis points of adjusted income before tax margin* improvement in 2019.

We successfully launched Children's TYLENOL Dissolve Packs, a novel way to administer pain relief for children. This alternative dissolvable pain-relief powder is the first of its kind and consumer feedback indicates that it could be a game-changer for many parents. The dissolve pack can be poured directly onto a child's tongue and it dissolves almost immediately, eliminating potential struggles for both parent and child, and ensuring the child gets the medicine they need.

Additionally, we successfully integrated the acquisitions of Zarbee's, Inc., a leader in naturally

based over-the-counter (OTC) remedies, and the DR. CI: LABO line of dermocosmetic skincare products—strengthening our position in these higher growth categories. Our U.S. Consumer business continued to grow above the market and our priority areas of Beauty and OTC delivered solid operational growth for the year.

Medical Devices

Medical Devices accelerated growth once again in 2019. As a result of our relentless focus on execution, improving our cadence of innovation and disciplined portfolio management, our underlying growth was just under 4%*. Our performance was driven by:

- Electrophysiology achieving its 11th consecutive year of double-digit growth,
- Contact Lens, which delivered growth at or above the market for the fourth straight year,
- Energy and Endocutters businesses growing mid-single digits, and
- Improved performance in Orthopaedics with each major platform accelerating compared to 2018.

During 2019, we also fortified our commitment and accelerated our entry into one of the fastest growing healthcare categories and exciting, transformative fields of medicine—digital robotic surgery.

Consistent with our pioneering legacy in Medical Devices, we are focused on the next frontier of surgery. The acquisition of Auris Health, Inc., a developer of robotic technologies currently concentrating in the lung cancer area, accelerated Johnson & Johnson's entry into robotics. This is a critical component of a digital surgery ecosystem that we are creating, which is being designed to make medical interventions smarter, less invasive and more personalized to elevate the standard of care. Additionally, in late December, we announced an agreement to acquire the remaining stake in Verb Surgical from Verily, to further strengthen our ecosystem, which we completed in February 2020.

We also successfully launched critical products across each Medical Devices franchise throughout 2019, including:

- The ATTUNE Cementless Knee System,
- Our first-of-its-kind ACUVUE OASYS contact lens with Transitions Light Intelligent technology,
- The industry's first powered circular stapler, ECHELON CIRCULAR, and
- The CARTO VIZIGO steerable sheath in our market-leading electrophysiology business.

Our team continues to focus on improving our pipeline of innovation, while also responsibly managing our portfolio – which included the completion of the Advanced Sterilization Products divestiture and the execution of more than 50 acquisitions or strategic partnerships in 2019, that we expect will further augment our future growth.

A Winning Equation for Innovation

Innovation is and always has been a competitive differentiator for Johnson & Johnson and will continue to be our calling card in the healthcare industry. Sustaining our investment in research and development is critical to achieving our business goals and objectives. As I mentioned, we achieved record levels of investment in innovation in 2019 and across all industries we remain one of the top 10 global companies in R&D investment.

We believe the power of any new idea is magnified and multiplied by our highly collaborative innovation process. Although we recognize the unique talent within the walls of this Company, we remain agnostic about where the best ideas come from. This approach fosters diverse thinking, opinions and tactics, and expands value through our commitment to be the partner-of-choice for the most prestigious scientific laboratories, universities, technology companies and health systems around the world. This is how that individual spark of an idea becomes the next great collaborative breakthrough.

Some exciting and promising areas of innovation that we are pursuing include:

- **The Lung Cancer Initiative (LCI)**, a cross-sector program dedicated to developing solutions that prevent, intercept and cure lung cancer. By focusing on the best science and

innovation available around the world, the LCI aims to eliminate lung cancer by developing and combining end-to-end solutions through pharmaceutical, medical devices and consumer health approaches.

- **Johnson & Johnson's four Innovation Centers** located in San Francisco, Boston, London and Shanghai, that focus on accessing innovation from all sources starting at inception and continuing through the early stages of development. Our Innovation Centers identify early stage transformational healthcare solutions from academics or startup companies who seek to partner with us to accelerate their novel programs across the full spectrum of healthcare. Since 2013, we've executed approximately 480 deals and invested approximately \$1 billion.

Across Johnson & Johnson, we recognize the powerful impact that technology, innovation and healthcare breakthroughs have in creating meaningful change in people's lives and establishing competitive differentiation within the industry.

- A new collaboration that focuses on the ground-breaking **Whole Genome Sequencing (WGS)** project, which will sequence the complete genetic code of 500,000 United Kingdom Biobank volunteers and is the single most ambitious sequencing program in the world that is a public-private initiative. It represents a major potential advancement for public health, as the dynamic genetics research will be leveraged to tackle critical diseases such as dementia, mental illness, cancer and heart disease.

Clearly, across Johnson & Johnson, we recognize the powerful impact that technology, innovation and healthcare breakthroughs have in creating meaningful change in people's lives and establishing competitive differentiation within the industry. We are fully committed to unlocking the full potential of the innovative ideas and solutions that we work to bring to market and to improve the lives of people around the world.

Healthy People, Healthy Planet

Just as I always talk about Our Credo, I never miss an opportunity to acknowledge that all of the success we achieved in 2019 would not have been possible without the efforts, passion and engagement of our Johnson & Johnson colleagues. Their commitment to delivering healthcare products and solutions that benefit patients, consumers and communities is both admirable and inspiring.

We are working to cure cancer, offer less invasive surgeries and eradicate global pandemics. This is what the world expects of us and this is what our global workforce is united around, committed to and prepared to do.

Our colleagues are just as unwavering in their commitment to cultivate the world's **best, healthiest and most engaged workforce**. We also share the common objective of always making the health and well-being of the patients and consumers who use our products every day our number one priority, and it has been this way for the last 133 years. We are developing innovative medicines and revolutionary products that are changing and saving people's lives. We are working to cure cancer, offer less invasive surgeries and eradicate global pandemics. This is what the world expects of us and this is what our global workforce is united around, committed to and prepared to do.

As global citizens, we're compelled to help enable a world where the possibility of a healthier tomorrow is probable today. Serving generations of individuals and people around the world with integrity, caring and compassion is our greatest responsibility. This dedication has been the catalyst for why and how we continue to address some of the most critical unmet healthcare needs in modern history. For example:

- In 2018, Ebola made a resurgence in the Democratic Republic of the Congo (DRC). Today, it's the world's second worst Ebola

outbreak on record, with over 3,000 confirmed cases and 2,000 deaths. To help protect the people of the DRC and neighboring Rwanda, Johnson & Johnson committed to providing up to 700,000 courses of an investigational Ebola vaccine regimen. The first shipments of the vaccine have arrived in these countries, and over 1,300 people have already been vaccinated.

- We launched the first (BAND-AID®)RED campaign collaboration between BAND-AID® Brand adhesive bandages and (RED), a group of companies who partner and provide critical funding, awareness, and resources to help fight AIDS. Through this partnership, we hope to mobilize people everywhere to #bandtogether against HIV/AIDS. The purchase of a box of (BAND-AID®)RED bandages will help provide a day's worth of lifesaving medication to someone living with HIV in sub-Saharan Africa.
- With a focus on protecting children against intestinal worm infections—which affect approximately 1.5 billion people worldwide—we developed a chewable formulation of a medication called mebendazole that, when mixed with a small amount of water, is easier for very young children to swallow. In April, the World Health Organization prequalified the new formulation, which will enable us to help even more young children at risk of infection.

Across Johnson & Johnson, we recognize that putting the needs of those we serve first also means protecting our shared environment and natural resources. We know that human health is directly linked to the health of the planet. That is why we are committed to reducing the environmental footprint of our operations, products and supply chain by reaching our 2020 targets to reduce carbon emissions by 20% and procure 35% of electricity from renewable resources. Looking over the long term, we are investing in operations to optimize water and energy efficiency, while focusing on sustainable design and reducing product packaging.

Focused Forward

At our core, Johnson & Johnson is in the business of caring for people and the world. Guided by Our Credo and a true sense of purpose, we have created a powerful

legacy of improving the health and well-being of people worldwide, while delivering sustainable, long-term value to stakeholders.

2019 marked our 133rd year of operation, and it was a year of unprecedented challenge and change. But I am deeply proud of how our Executive Committee and colleagues around the globe remained focused on accelerating our momentum to advance healthcare and attain results. There was—and continues to be—a steady resolve in our attitude and approach, whether we are creating value, cultivating a diverse and inclusive work environment, ensuring financial success, or delivering innovative healthcare solutions to people in need.

I have had the honor of being the Chairman and CEO of Johnson & Johnson for the last eight years and I consider myself a veteran in the healthcare industry, having spent my entire career in this space. I can say without hesitation that volatility will likely continue to impact the external environment. However, knowing this only strengthens my motivation, confidence and excitement about the positive impact

Johnson & Johnson will continue to make as we work to advance health for humanity.

Guided by Our Credo and a true sense of purpose, we have created a powerful legacy of improving the health and well-being of people worldwide, while delivering sustainable, long-term value to stakeholders.

Thank you for your continued trust and support, and most especially for the privilege of leading this great Company as we execute bold strategies, develop innovative medicines and products, and ensure that good health is within reach of everyone, everywhere.

Sincerely,



Alex Gorsky
Chairman and Chief Executive Officer
Johnson & Johnson

*Non-GAAP measures: Operational sales growth excludes the effect of translational currency. Adjusted operational earnings growth excludes special items, intangible asset amortization expense and the effect of translational currency. Adjusted income before tax excludes special items and intangible asset amortization expense. See Non-GAAP Reconciliation of Operational sales growth excluding acquisitions and divestitures (underlying growth) for the Medical Devices segment and Adjusted income before tax margin for the Consumer segment in this Annual Report.

Note Regarding Forward-Looking Statements

This letter contains forward-looking statements relating to, among other things, future operating and financial performance, product development, market position and business strategy. The reader is cautioned not to rely on these statements, which are based on current expectations of future events. For important information about these statements, including the risks, uncertainties and other factors that could cause actual results to vary materially from the assumptions, expectations and projections expressed in any forward-looking statements, the reader should review the enclosed Annual Report on Form 10-K for the fiscal year ended December 29, 2019, including in the sections captioned “Cautionary Note Regarding Forward Looking Statements” and “Item 1A. Risk Factors.” Johnson & Johnson does not undertake to update any forward-looking statement as a result of new information or future events or developments.